

Unemployment Compensation: The Cornerstone of Income Support for Unemployed Workers

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Summary

A variety of benefits may be available to unemployed workers to provide them with income support during a spell of unemployment. When eligible workers lose their jobs, the Unemployment Compensation (UC) program may provide income support through the payment of UC benefits. Many workers who have exhausted their rights to regular UC benefits may have their unemployment insurance benefits extended for up to 13 additional weeks through the temporary Emergency Unemployment Compensation (EUC08) program. In addition, the Extended Benefit (EB) program may extend UC benefits at the state level if certain economic situations within the state exist. This report briefly summarizes the UC program, its authorization, appropriations, benefit determination, and funding. For a comprehensive summary of all income support programs available to unemployed workers, consult CRS Report RL33362, *Unemployment Insurance: Available Unemployment Benefits and Legislative Activity*, by Alison M. Shelton and Julie M. Whittaker.

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Unemployment Compensation Program

The cornerstone of income support for unemployed workers is the joint federal-state Unemployment Compensation (UC) program, which may provide income support through UC benefit payments. UC benefits may be extended at the state level if certain economic situations under the Extended Benefit (EB) program within the state exist.

The UC program has a direct impact on almost every business in the United States as most businesses are subject to state and federal unemployment taxes. An estimated \$7.4 billion in federal unemployment taxes and \$36.1 billion in state unemployment taxes were collected in FY2007. In FY2007, the federal appropriation for the UC program was \$3.7 billion. In FY2007, states spent an estimated \$31.4 billion on UC benefits. Approximately 133.4 million jobs are covered by the UC program. In March 2008, 3.2 million unemployed workers received UC benefits in a given week and the average weekly UC benefit amount was \$291.

Originally, the intent of the UC program, among other things, was to help counter economic fluctuations such as recessions.¹ This intent is reflected in the current UC program's funding and benefit structure. When the economy grows, UC program revenue rises through increased tax revenues while UC program spending falls as fewer workers are unemployed. The effect of collecting more taxes than are spent dampens demand in the economy. This also creates a surplus of funds or a "cushion" of available funds for the UC program to draw upon during a recession. In a recession, UC tax revenue falls and UC program spending rises as more workers lose their jobs and receive UC benefits. The increased amount of UC payments to unemployed workers dampens the economic effect of earnings losses by injecting additional funds into the economy.

Other programs that may provide workers with income support are more specialized. These programs may target special groups of workers; be automatically triggered by certain economic conditions; be temporarily created by Congress with a set expiration date; or target typically ineligible workers through a disaster declaration.²

Joint Federal-State Program

Unemployment Compensation is a joint federal-state program financed by federal taxes under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes under the State Unemployment Tax Acts (SUTA).

Authorization

The underlying framework of the UC system is contained in the Social Security Act. Title III of the act authorizes grants to states for the administration of state UC laws, Title IX authorizes the various components of the federal Unemployment Trust Fund (UTF), and Title XII authorizes advances or loans to insolvent state UC programs.

¹ See, for example, President Franklin Roosevelt's remarks at the signing of the Social Security Act; <http://www.ssa.gov/history/fdrstmts.html#signing>.

² For a discussion of these programs, see CRS Report RL33362, *Unemployment Insurance: Available Unemployment Benefits and Legislative Activity*, by Alison M. Shelton and Julie M. Whittaker.

Appropriation

The federal government appropriates funds for federal and state UC program administration, the federal share of EB payments, and federal loans to insolvent state UC programs. In FY2008, the appropriation is \$3.7 billion. The states will receive an estimated \$2.29 billion from the federal government for the administration of their UC programs.³

Administration

The U.S. Department of Labor (DOL) administers the federal portion of the UC system, which operates in each state, the District of Columbia, Puerto Rico, and the Virgin Islands. Federal law sets broad rules that the 53 state programs must follow. These include the broad categories of workers that must be covered by the program, the method for triggering the EB program, the floor on the highest state unemployment tax rate to be imposed on employers (5.4%), and how the states will repay UTF loans. If the states do not follow these rules, their employers may lose a portion of their state unemployment tax credit when their federal unemployment tax is calculated. The federal tax pays for both federal and state administrative costs, the federal share of the EB program, loans to insolvent state UC accounts, and state employment services. The states may only use their state tax revenues for UC benefits and not for administrative costs.

Benefits Determination and Duration

States determine UC benefit eligibility, payments, and duration through state laws and program regulations. Generally, UC benefits are based on wages for covered work over a 12-month period. Most state benefit formulas replace half of a claimant's average weekly wage up to a weekly maximum. Weekly maximums in January 2008 ranged from \$210 (Mississippi) to \$600 (Massachusetts) and, in states that provide dependent's allowances, up to \$900 (Massachusetts). In March 2008, the average weekly benefit was \$291. Benefits are available for up to 26 weeks (30 weeks in Massachusetts). The average regular UC benefit duration in March 2008 was 15 weeks; the average regular UC benefit duration in FY2007 was 15.2 weeks. In April 2008, approximately 3.0 million unemployed workers received UC benefits in a given week.

Extended Benefit Program

The Extended Benefit (EB) program, established by P.L. 91-373 (26 U.S.C. 3304), may extend UC benefits at the state level if certain economic situations within the state exist. The EB program is triggered when a state's insured unemployment rate (IUR)⁴ or its total unemployment rate (TUR)⁵ reaches certain levels. The weekly EB benefit is identical in value to the regular weekly UC benefit. The EB program provides for additional weeks of UC benefits, up to a maximum of 13 weeks during periods of high unemployment and up to a maximum of 20 weeks in certain states with extremely high unemployment. As of July 21, 2008 the EB program is active in Alaska and Rhode Island.

³ In addition to the base state amount, a state may receive extra funds each quarter for actual UC claims workload above the state's base.

⁴ The IUR is the ratio of UC claimants divided by individuals in UC-covered jobs.

⁵ The TUR is the ratio of unemployed workers to all workers in the labor market.

Emergency Unemployment Compensation Program (EUC08)

On June 30, 2008, the Emergency Unemployment Compensation (EUC08) program was created by P.L. 110-252. This new temporary unemployment insurance program provides up to 13 additional weeks of unemployment benefits to certain workers who have exhausted their rights to regular unemployment compensation (UC) benefits.⁶ The program began July 6, 2008, and will terminate on March 28, 2009. No EUC08 benefit will be paid beyond the week ending July 4, 2009. The EUC08 program should not be confused with the similarly named EB program. The EUC08 program is temporary and applies to all states. The EB program is permanently authorized and applies only to certain states on the basis of state economic conditions specified in law.

EUC08 and EB Interactions . The EUC08 program allows states to determine which benefit is paid first. Thus, states may choose to pay EUC08 before EB or vice versa. States balance the decision of which benefit to pay first by examining the potential cost savings to the state with the potential loss of unemployment benefits for unemployed individuals in the state. It may be less costly for the state to choose to pay for the EUC08 benefit first as the EUC08 benefit is 100% federally financed (whereas the EB benefit is 50% state financed).⁷ However, if the state opts to pay EUC08 first, individuals in the state might receive less in total unemployment benefits if the EB program triggers off before the individuals exhaust their EUC08 benefits.

Alaska has opted to pay EB before EUC08 benefits. In contrast, Rhode Island has opted to pay EUC08 benefits before EB.

Financing: Unemployment Taxes on Employers

UC benefits are financed through employer taxes.⁸ The federal taxes on employers are under the authority of the Federal Unemployment Tax Act (FUTA), and the state taxes are under the authority given by the State Unemployment Tax Acts (SUTA). These taxes are deposited in the appropriate accounts within the Unemployment Trust Fund (UTF).

Federal Unemployment Tax Act

If a state UC program complies with all federal rules, the net FUTA tax rate for employers is 0.8% on the first \$7,000 of each worker's earnings. The 0.8% FUTA tax funds both federal and state administrative costs as well as the federal share of the EB program, loans to insolvent state UC accounts, and state employment services. Federal law defines which jobs a state UC program must cover for the state's employers to avoid paying the maximum FUTA tax rate (6.2%) on the first \$7,000 of each employee's annual pay.

Federal law requires that a state must cover jobs in firms that pay at least \$1,500 in wages during any calendar quarter or employ at least one worker in each of 20 weeks in the current or prior year. The FUTA tax is not paid by government or nonprofit employers, but state programs must cover government workers and all workers in nonprofits that employ at least four workers in each

⁶ For a detailed explanation of the EUC08 program, see CRS Report RS22915, *Temporary Extension of Unemployment Benefits: Emergency Unemployment Compensation (EUC08)*, by Julie M. Whittaker and Alison M. Shelton.

⁷ Some recipients may find jobs before becoming eligible for EB. In addition, the state may trigger off of the EB program before some recipients exhaust EUC.

⁸ For a more detailed description of UC financing, see CRS Report RS22077, *Unemployment Compensation (UC) and the Unemployment Trust Fund (UTF): Funding UC Benefits*, by Julie M. Whittaker and Kathleen Romig.

of 20 weeks in the current or prior year. (States are reimbursed for expenditures related to federal workers by the federal government.)

An estimated \$7.3 billion in FUTA taxes were collected in FY2007. After the payments to the state accounts for administrative expenses, the expected net balance in the UTF of the Employment Security Administration Account, the Extended Unemployment Compensation Account (for the EB program), and the Federal Unemployment Account (for federal loans to the states) was expected to be \$35.2 billion at the end of March 2008.

Expiring Provision: P.L. 110-140 . On December 19, 2008, the President signed P.L. 110-140. Among many other items, P.L. 110-140 includes a one-year extension of 0.2% FUTA surtax. At the end of CY2008, the effective FUTA tax on employers for each employee will decrease to 0.6% (down from 0.8%) on the first \$7,000 of wages. SUTA taxes are not directly affected by the expiring provision.

State Unemployment Tax Acts

States levy their own payroll taxes on employers to fund regular UC benefits and the state share of the EB program. These state UC tax rates are “experience-rated,” in which employers generating the fewest claimants have the lowest rates. The state unemployment tax rate of an employer is, in most states, based on the amount of UC paid to former employees. Generally, in most states, the more UC benefits paid to its former employees, the higher the tax rate of the employer, up to a maximum established by state law. The experience rating is intended to ensure an equitable distribution of UC program taxes among employers and to encourage a stable workforce. State ceilings on taxable wages in 2008 range from the \$7,000 FUTA federal ceiling (eight states) to \$32,200 (Idaho). The minimum rates range from 0% (six states) to 1.69% (Rhode Island). The maximum rates range from 5.4% (17 states) to 12.27% (Massachusetts). Approximately \$33.7 billion in SUTA taxes were collected in FY2007.

State UC revenue is deposited in the U.S. Treasury. These deposits are counted as federal revenue in the budget. State accounts within the UTF are credited for this revenue. The U.S. Treasury reimburses states from the appropriate UTF state accounts for their benefit payments. These payments do not require an annual appropriation, but the reimbursements do count as federal budget outlays.

If a state trust fund account becomes insolvent, a state may borrow federal funds. As of this writing, no state has an outstanding loan.

The net balance of the state accounts in the UTF at the end of March 2008 was approximately \$32.4 billion.

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